

Report to	Governance and Audit Committee
Date of meeting	20 th November 2024
Lead Member / Officer	Lead Member for Finance Performance and Assets, Head of Finance and Audit
Report author	Head of Finance and Audit
Title	Update to Medium Term Financial Strategy and Plan for 2025/26 – 2027/28.

1. What is the report about?

1.1. The report provides an update to the Medium-Term Financial Strategy and Plan for 2025/26 – 2027/28.

2. What is the reason for making this report?

2.1. Part of the role of the Governance and Audit Committee is to seek assurance that the Council has effective and robust processes in place for setting balanced budgets. The report updates the Committee on

- proposed budget strategy for setting the budget for 2025/26 as set out in the Medium-Term Financial Strategy (MTFS)
- financial projections for the 3-year period 2025/26 to 2027/28 in the high-level Medium Term Financial Plan (MTFP).
- Progress on savings proposals that are being developed

3. What are the Recommendations?

3.1. The Committee considers and provides feedback for Cabinet on the updates listed in 2.1 above.

4. Report details

4.1. The Committee has agreed to receive periodic updates of the MTFS and MTFP 2025/26 – 2027/28 throughout the year. Updates have been considered by the committee in April and July with feedback provided to Cabinet.

Medium Term Financial Strategy and Plan 2025/26 – 2027/28 – Appendices 1, 2 and 3

- 4.2. Appendix 1 sets out the current budget projections for 2025/26 – 2027/28 along with the assumptions that underpin the projections. As we move closer to setting our budget for 2025/26 cost pressures have been refreshed to reflect current information available in the MTFP. The table continues to include a range of assumptions to provide a low, medium and high estimate of costs for each pressure, illustrating both the uncertainty of the figures and the ongoing work to continue to refresh and refine these projections over the coming months. The impact of estimated increases in Council Tax and funding from Welsh Government is also included in the MTFP.
- 4.3. Appendix 3 is the MTFS which sets out the Council's strategic approach to the management of its finances and outlines the financial issues that will face the Council over the next three years.
- 4.4. This is the third iteration of these documents and has been compiled with data and information available as at early October 2024 (prior to announcements made in the UK Government's autumn 2024 budget). The documents will continue to be updated as set out in the MTFS as the council prepares to set its budget for 2025/26 in February 2025.
- 4.5. The council has faced a significant financial challenge in setting its 2024/25 budget, which is set to continue in the medium term due to a combination of no increases in funding from Welsh Government (working assumption), the continued impact of inflation and increases in demand for and complexity of needs for services. The scale of the financial challenge facing the council should not be underestimated. Key points are:
- Pressures are difficult to forecast but are currently ranging from £12m to £24m in 2025/26 with a mid-range of £18m. Similar ranges are forecast for 2026/27 and 2027/28.

- The 2024/25 funding settlement from Welsh Government provided no future indication of funding as it has done for the past 2 years. Future funding within the MTFP is based on assessments by Wales Fiscal Analysis at slightly negative reductions in the absence of anything else.
- Assumptions made about Council Tax increases range from 6% - 12% for 2025/26 with a 5.5% long term average thereafter for both years. It is important to note that no decisions regarding Council Tax levels for 2025/26 have been made yet. This is a matter that will be decided by Council at its meeting in February 2025. A mid-range assumption of a Council Tax increase of 9% for 2025/26 yields an additional £6.8m which only addresses a third of the current funding gap.
- The council has been planning to act to significantly reduce the projected net expenditure in 2025/26 to set a balanced budget as set out within the MTFP.
- At current forecasts for cost pressures, current assumptions for WG funding and the working assumption for Council Tax at 9% the remaining budget gap is substantial at £12m.

4.6. Changes made to the MTFP are highlighted in yellow in appendix 3 for the ease of members of the committee and are summarised below;

- Budget pressures have been updated to include latest forecasts
- Risks – updates on pay awards
- Fees and Charges section has been updated along with the capital section

4.7. As set out within the MTFP the approach to setting balanced budgets over the next few years will need to both identify savings and invest in transformational projects. To deliver savings in 2025/26, target percentage service reductions have been issued which services have been working towards achieving whilst balancing the impacts on service delivery, many of which are statutory. Included in the first table at Appendix 2 are early savings proposals that Lead Members and Heads of Service consider are sufficiently developed. The second table at Appendix 2 are savings proposals that Lead Members and Heads of Service are actively working on to provide further savings for setting the 2025/26 budget.

4.8. There continues to be much uncertainty around at present that could change the financial position, for example pay assumptions may need to change, funding from

Welsh Government may change (especially considering the recent UK government budget). Every Head of Service continues to develop their savings proposals which will need to be considered alongside all other options available to set a balanced budget including decisions around Schools' Budgets, any savings from corporate budgets and Council Tax as the Council gets closer to setting its budget for 2025/26 which is a legal requirement.

4.9. It is clear if the funding position from Welsh Government does not improve the Council will have to make difficult decisions to balance the 2025/26 budget. Those difficult decisions will mean increased Council Tax and reductions in some services, to fund cost pressures, outside of the council's control, including nationally set pay awards and increases in complexity for demand led statutory services in adults' and children's social care.

5. How does the decision contribute to the Corporate Plan 2022 to 2027: The Denbighshire We Want?

5.1. Effective management of the council's budgets and delivery of the agreed budget strategy underpins activity in all areas. The proposals include allocations to continue to support both corporate and service priorities.

6. What will it cost and how will it affect other services?

6.1. As set out within the budget reports to date for 2024/25. Financial and other implications for future budgets will become clearer as we progress the budget strategy.

7. What are the main conclusions of the Well-being Impact Assessment?

7.1. A Well-being Impact Assessment (WIA) was completed for each major savings proposal in setting the 2024/25 budget. All assessments were collated and reviewed by strategic planning and performance officers to highlight any themes and patterns emerging to provide regular updates on the aggregate impact in respect of each of the well-being goals and whether the savings were disproportionately affecting any particular protected group. These were collated to form an overall WIA of the combined budget reduction measures.

7.2. A similar process will be implemented for 2025/26 budget setting.

8. What consultations have been carried out with Scrutiny and others?

8.1. A Communication Plan has been developed for the budget to ensure that the following groups are consulted at the appropriate times: Governance and Audit Committee, SLT, Cabinet, Group Leaders, all Council Members, the School Budget Forum, Trade Unions, our employees, local businesses, and our residents.

9. Chief Finance Officer Statement

9.1. The Council, along with all other Welsh councils, faces unprecedented financial challenges. The aim of the MTFS is to ensure that the council delivers future balanced budgets. Setting out the projections and strategy in this report will help ensure that the Council is informed and prepared to set a budget at this challenging time.

10. What risks are there and is there anything we can do to reduce them?

10.1. The budget process itself is a risk management measure with the aim of identifying, assessing and agreeing budget proposals in a planned and timely way. Failure to agree these proposals without viable alternatives will risk not achieving a balanced budget for 2025/26.

10.2. A detailed section on risk is included in the MTFS in appendix 3.

10.3. As highlighted previously to the committee there are risks regarding the capacity of the Finance team that Members need to be aware of. The team continue to work with Audit Wales on the audit of the 2022/23 accounts, and subsequently then the closure of the 2023/24 accounts. A new single financial system was introduced over 2 phases in April and September replacing several legacy financial systems including payments, receipts, general ledger, budget forecasting and reporting. As with the introduction of any new system that effects hundreds of users across all our financial systems there will be some disruption before things settle down.

11. Power to make the decision

11.1. Local authorities are required under Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs.